

## DOCUMENT RESUME

ED 421 232

PS 026 678

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TITLE Cost of Pre-School Education Provision.  
INSTITUTION Scottish Office Education and Industry Dept., Edinburgh.  
ISSN ISSN-0969-613X  
PUB DATE 1998-00-00  
NOTE 16p.  
AVAILABLE FROM The Scottish Office Education and Industry Department, Room 2B, Victoria Quay, Edinburgh EH6 6QQ, Scotland, United Kingdom; fax: 0131-244-5581; World Wide Web: <http://www.hmis.scotoff.gov.uk/riu>  
PUB TYPE Collected Works - Serials (022) -- Reports - Research (143)  
JOURNAL CIT Interchange; n53 Jun 1998  
EDRS PRICE MF01/PC01 Plus Postage.  
DESCRIPTORS Comparative Analysis; \*Educational Economics; \*Educational Finance; \*Expenditure Per Student; Financial Support; Foreign Countries; Preschool Children; \*Preschool Education; School District Spending  
IDENTIFIERS Program Characteristics; Scotland

## ABSTRACT

This study examined the current costs of preschool education in Scotland. Eleven preschool centers were studied in order to facilitate identification of key issues and to assist in designing the main questionnaire. Study findings indicated that main issues were the extent of between-center differences, information availability, and the use of marginal costing in some local authorities. Participating in a mail survey were 207 local authority centers and 135 private and voluntary centers. Findings indicated that preschool provision in Scotland is far from homogeneous. Private and voluntary centers were more likely than local authority centers to be open at least 50 weeks a year and were less likely to serve children with special educational needs. The average staff cost was 1.65 (British pounds) per child hour with considerable variation among centers due to use of volunteer staff, owners taking from profits rather than paying themselves salaries, use of qualified teachers and salaried staff, and rate of pay. The average property cost was 0.45 (British pounds) per child hour. Other costs, including equipment and transportation, averaged 0.16 (British pounds) per child hour, with significant costs incurred centrally by local authorities. Small centers had higher unit costs than larger ones. Private centers had lower costs than voluntary centers. Private and voluntary centers in rural areas had lower costs than those in urban and intermediate areas. (KB)

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*In September 1997, The Scottish Office Education and Industry Department Educational Research Unit commissioned a study on the cost of pre-school education in Scotland. A detailed exploration of eleven pre-school establishments, drawn from the public, private and voluntary sectors within both rural and urban areas, was undertaken to identify the range and variety of factors which affect the financial cost of provision across different establishments and sectors.*

*A postal survey was then sent to a sample of 20 per cent of education authority centres and 40 per cent of private and voluntary pre-school establishments, in anticipation of a differential response rate. The sample was drawn from The Scottish Office database of providers registered as eligible for Government grant for pre-school education, but did not include individual registered childminders or the one self-governing school. This stage provided information which enabled both intra- and inter-sector cost comparisons to be made.*

*The study identifies the significant cost drivers, giving some indication as to the ways in which the pattern of costs might change under a new funding regime. It also highlights particular areas where the pattern of costs cannot be explained without more detailed analysis within the private and voluntary sectors, and it touches on the potential to develop understanding of cost drivers in rural areas further, possibly as part of a wider study in the future.*

## Cost of Pre-School Education Provision

**Paula Gilder, Paul Jardine and Sinead Guerin**

*Paula Gilder Consulting in association with Jura Consultants*

### Background

Education services for the pre-school child in Scotland are offered in the public, private and voluntary sectors. There is a great range of provision, but all of it is regulated, to a greater or less degree, under the Education (Scotland) Acts or under child care legislation. In practice, it is often difficult to draw a clear distinction between child care and education in the early-years services. For the purpose of the previous Government's voucher system, certain providers in the public, private and voluntary sectors were registered as being eligible to receive Government grant for pre-school education (under the Education (Scotland) Act 1996). Registration was contingent upon successful assessment of the type and standard of services provided, the assessment being carried out by HM Inspectorate of Schools. The current research examines the cost of that provision, but only in centres which were registered.

Such pre-school provision is offered in a range of centres. These include education authority nursery schools or nursery classes attached to primary schools; local authority day care provision (under a number of different titles); independent schools registered with The Scottish Office under the Education (Scotland) Act 1980; playgroups similarly registered, and private day nurseries. (Centres within these last two groups are also registered for day care purposes by their local authority under the Children Act 1989).

A number of other factors impinge on this study. Pre-school education is not based upon a standardised timetable. While education authority nursery schools and classes generally offer approximately 12.5 hours a week in five morning or afternoon sessions, provision in other settings can be very different. This is especially so where pre-school education is provided alongside, or integrated with, day care services over extended hours to fit in with the parents' working day – not all of this provision is 'education'.

Costs may also be treated differently by various providers. In some private nurseries and education authorities fairly sophisticated accounting systems are in place. These may be absent from, for example, a voluntary playgroup.

The aim of this research study was to establish firm and comprehensive information on the costs of pre-school educational provision for children in Scotland.



It was also anticipated that the attribution of costs within different sectors would vary. This required the disaggregation of some budget headings and the identification of inputs which are not normally recorded as actual costs. For example, much pre-school provision is supported by volunteers (particularly in the voluntary sector) who may receive little or no remuneration. Also, premises may be provided by third parties without rental charges, for example, empty classrooms, church or community halls.

The costs of extra provision for children with special educational needs was another complicating factor which required the collection of information from individual centres, in all sectors, and from local authorities.

The research had to take account of all these contextual complicating factors in order to provide a robust, consistent and defensible approach to the accounting issues involved.

### **Objectives and approach to the research**

The aim of this research study was to establish firm and comprehensive information on the current costs of pre-school educational provision for children in Scotland. The objectives also included the determination of the principal cost drivers.

The first part of the study was a detailed review of eleven pre-school education centres, selected to cover the widest possible range of types of centre and location. The purpose of the case studies was to get a feel for the information likely to be available from each provider, the current cost structure of the centres reviewed and the determinants of each element of their costs.

This enabled the team to identify key issues at an early stage. It also helped in the design of the questionnaires used for the main survey. These collected both financial information and information about each centre and the way it operates. Before reaching a picture of full costs, the main types of cost were analysed separately:

- staff costs
- property costs
- other costs.

In each case the differences between sectors were examined and comparisons were made between small centres and larger ones and between those in rural, intermediate or urban areas.

### **Case-study findings**

The main issues which were identified from the review of the case-study centres were concerned with:

- the extent of the differences between centres
- the availability of information
- the use of marginal costing in some local authorities.

The research specification called for the determination of the full financial cost per child/place of part-time pre-school education provision, by sector, across Scotland. However, as a consequence of the wide range of different operating patterns identified at this stage, it appeared that a different measure of unit cost from that originally intended might be necessary. Therefore the questionnaires were designed so the number of child hours could be calculated as well as the number of sessions and the number of places.

Two potential problems were identified concerning the availability of information. The first related to what information centres held and the second concerned the period to which costs related. Different accounting dates were less of a problem than the fact that most historical accounts covered, at least partly, the pre-voucher era. The solution adopted was to build up the major items of cost from current information. For example, in the case of staff costs, a snapshot approach was adopted with staffing numbers and pay levels at a given date being requested.

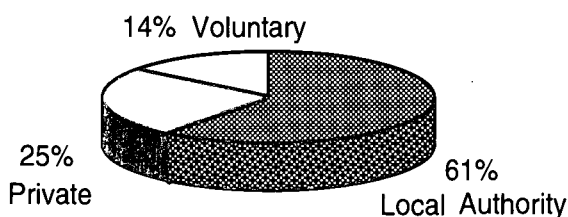
It also became apparent that many local authorities were adopting a marginal approach to costing the service, in particular where nursery classes were added to primary schools which had previously had spare capacity. Questions were therefore included about overall provision levels, and about internal cost allocation methods, to enable the team to compensate for this approach as far as possible, and to assess its likely future impact.

### Respondents to the main survey

The response to the questionnaires is shown below. The 207 local authority centres represent 16 per cent of the total number of local authority centres and the 135 private and voluntary centres represent 13 per cent of that total population. In addition, 27 of the 32 local authorities responded. Data used for the Grant-Aided Expenditure (GAE) was utilised and authorities were ranked using both the Additive Sparsity Indicator and the Multiple Sparsity Indicator to produce the three divisions:

- rural (10 authorities)
- intermediate (11 authorities)
- urban (11 authorities).

*Figure 1: Percent of respondents from public, private and voluntary sectors*



The 207 local authority centres covered by the analysis consisted of:

- 126 nursery classes in primary schools
- 47 nursery schools
- 34 others (including non-school centres, such as family centres, and nursery classes attached to special schools or other establishments).

Pre-school provision in Scotland is far from homogeneous.



Of the 135 private and voluntary providers, 48 were classified by The Scottish Office (in line with centres' own self-identification) as voluntary and 87 as private sector. The latter group included small nurseries and some very large centres.

The size of centres, as measured by the number of children attending the main session, varies considerably and there are significant differences between sectors.

*Table 1: size of centre measured by number of children attending main session*

	Local Authority Centres		Private & Voluntary Centres	
Total no. children	Number	% of total	Number	% of total
0 - 20	28	13.6%	48	35.8%
21 - 40	52	25.2%	40	29.9%
41 - 60	37	18.0%	23	17.2%
61 - 80	37	18.0%	12	9.0%
81 - 100	18	8.7%	4	3.0%
101 - 120	15	7.3%	2	1.5%
121 - 140	12	5.8%	1	0.7%

There were 76 centres with 20 children or less – these centres were classified as small for the purposes of analysis. About half of these centres were in rural local authority areas.

### **Range of operating patterns**

More than 80 per cent of the local authority centres and about 50 per cent of the private and voluntary sector centres covered by the analysis are open for between 38 and 40 weeks a year. Private and voluntary centres' opening periods cover a wider spread and a much higher proportion are open 50 weeks a year or more (22 per cent compared with 9 per cent in the local authority sector). Centres across all sectors vary in the total number of hours (covering both day care and education) they offer each week from less than four to more than 50.



This wide range of operating patterns confirmed that the detailed financial analysis would have to compare costs per child hour rather than by session or by place. The number of child hours per centre was calculated based on the actual number of children attending each session in the snapshot week, the length of each session and the number of weeks the centre operates in a year. (Whilst it is possible to derive the cost of a place from costs per child hour, this involves more than simply ‘grossing up’ – the complexities are touched on below).

### Profile of children who attend pre-school education centres

Local authority and private/voluntary sector centres provided for a significantly different profile of children as shown.

Respondents were asked to define as having a special educational needs (SEN) any children whose needs were such that they resulted in extra costs being incurred. The total number of children identified as having special needs using this definition was 381, of whom 360 were in local authority centres.

*Table 2: Profile of children who attend pre-school education centres*

	Local Authority Centres	Private/Voluntary Centres
Number of children	13061	5293
% in pre-school year	75%	50%
% with SEN (see below)	2.8%	0.4%

### Overall levels of provision

To assess spare capacity, centres were asked to compare actual numbers of children attending the centre with its capacity. However, many centres, particularly in the voluntary sector, operate in premises like village halls which could accommodate many more children and capacity is therefore constrained only by staffing levels, which in turn could be increased if the number of children warranted it. It was therefore not possible to quantify any under-use of existing capacity.



Questions were also addressed to local authorities about the numbers of pre-school children in their area with places and about those without access to any provision:

- five authorities indicated that there was no shortfall in provision, that is that all pre-school children who required a place had one
- six did not know whether or not there was a shortfall
- 16 were aware of shortages.

Eleven of these 16 authorities were able to quantify the shortfall and, for them it amounted to an average of 5 per cent of the number of pre-school-age children in those areas, with a range of 1 to 16 per cent. There was no discernible pattern in reported shortfalls.

### Staff costs

The average staff cost incurred by centres was £1.65 per child hour but the range was considerable.



Staff costs include salaries, wages, employment overheads, training and staff absence cover related to all staff who are dedicated to each centre, and to appropriate proportions of associated staff, that is those, such as primary school headteachers or janitors, whose work load includes the centre but as part of a wider remit.

The average staff cost incurred by centres was £1.65 per child hour. This ranged from £2.22 per child hour in local authority centres, through £1.20 in voluntary centres to £0.79 per child hour in private centres.

In addition local authorities provide centrally for some absence cover, training and development. This amounts to an average of £17.93 a year for each child in a local authority centre. A small amount of the training figure may relate to staff from the private or voluntary sector whose training is being provided or funded by the authority. To that extent the figure above may be slightly overstated.

Including these central costs, and making the necessary assumptions to convert the costs above to annual equivalents, the average staff cost per child per year is £836.16. This ranges from £1128.08 in local authority centres, through £598.75 in voluntary centres to £397.30 in private centres.

Reasons for these variations include:

use of volunteer staff – the private and voluntary sectors rely on unpaid volunteer staff to provide cover for staff absences. The centres identified about 510 sessions a month of free cover, about 6.5 per cent of child hours in voluntary centres and 0.5 per cent of child hours in private centre

- volunteers are used on a regular basis by 36 per cent of the centres in the private and voluntary sector to maintain the staffing ratio

treatment of private sector 'drawings' – owners may be taking 'drawings' from profits rather than paying themselves a salary, which do not then appear as staff costs

use of qualified teachers and salaried staff – the proportion of salary and wages costs accounted for by qualified teachers is 29 per cent in local authority centres, 14.7 per cent in private centres and 2.7 per cent in voluntary centres

- in local authority centres 97 per cent of the salary/wage bill for dedicated centre staff is accounted for by salaried staff, compared with 76 per cent in the private and voluntary sector centres

rate of pay – almost all hourly paid local authority staff are paid between £4 and £6 an hour. In the private and voluntary sector centres, although more than half the staff receive between £4 and £6 an hour, 25.6 per cent of qualified staff and 35.9 per cent of unqualified staff receive less. 10.3 per cent of qualified staff and 14.1 per cent of unqualified staff receive £3 an hour or less

- local authority salaried staff are also paid significantly more than apparently equivalent staff in the private and voluntary sector, although in the private and voluntary sector a very large range of salary levels was reported, for example from £3,360 to £21,912 p.a. for managerial staff (compared with a local authority average of £27,518).

Local authority centres typically work to a target child:staff ratio of 10:1 for pre-school children whereas private and voluntary centres typically work to a target child:staff ratio of 8:1 for pre-school children and an average target ratio across all ages of 6:1. Thus, although staff costs are higher per member of staff in the local authority centres, the effect of this on the cost per child is reduced by lower staffing levels. [For further clarification, please see Schools (S) Code and Departmental Guidance on Children Act 1989]

### **Property costs**

Property costs include rent, loan charges and other property-related costs such as buildings and grounds maintenance, rates and/or council taxes, water, heating, lighting, telephone, cleaning, caretaking, security and insurance.

The reported average property cost incurred by centres was £0.45 per child hour. This ranged from £0.66 per child hour in local authority centres, through £0.16 in voluntary centres to £0.12 per child hour in private centres.

In addition local authorities provide centrally for capital charges and some other property costs amounting to an average of £58.49 a year for each child in a local authority centre.

Thirteen independent centres (accounting for approximately 9 per cent of the total number of child hours provided in this sector) appear to use their property at no cost. Property costs in this sector will, to that extent, not reflect the true economic cost.

For some nursery classes local authorities returned a total premises cost figure for the whole school. Where school-roll figures were also given, the nursery-class share of the total cost was calculated on the basis of the number of children. Otherwise the information was treated as unavailable.

In cases where authorities gave figures as allocated directly to a nursery class, these figures have been used. However, sometimes they have clearly treated a nursery class as a marginal addition to the primary school and have allocated to it only additional costs. To that extent property costs for the local authority sector will also be less than the true economic cost. Also, costs are often allocated to centres by education authorities as a fixed amount per school, obscuring any variations between rural/urban and large/small centres.

Including the local authority central costs, and converting the costs above to annual equivalents, the average property cost per child per year is £259.98. This ranges from £389.09 in local authority centres, through £81.45 in voluntary centres to £58.30 in private centres.

### Other costs

This includes all costs other than staff-related costs and property-related costs. It includes expenditure by centres on meals, milk, snacks, equipment, materials and transport. The average of these costs incurred by centres was £0.16 per child hour. This ranged from £0.38 per child hour in voluntary centres, through £0.16 in private centres to £0.13 per child hour in local authority centres.

Local authorities' other central costs include administrative costs (relating to the servicing of committees, production of papers for council members etc), specialist services for children with special educational needs, support services, home-to-school transport, equipment and materials, contingencies and grants, both to the Scottish Pre-School Play Association (SPPA) and to individual playgroups. In many cases the information did not allow for the separation of costs – for example support services, which should be treated as an overhead on local authority centres, could not be distinguished from grants, which should not be so treated. However, based on those authorities who gave sufficient detail, only a small proportion seems to be allocated to grants. Other central costs have therefore all been treated as relating to the authorities' own centres. Some of these costs (for example administrative expenses) are fixed rather than variable (that is, are inherent in the provision of the education service) and there is an inevitable artificiality about expressing them on a per capita basis.

Including these central costs, which total £144.60 per year for each child in a local authority centre, and converting the costs above to annual equivalents, the average per child per year is £165.08. This ranges from £209.10 in local authority centres, through £188.00 in voluntary centres to £81.50 in private centres.

Local authorities incur significant expenditure centrally.



## Overview of costs

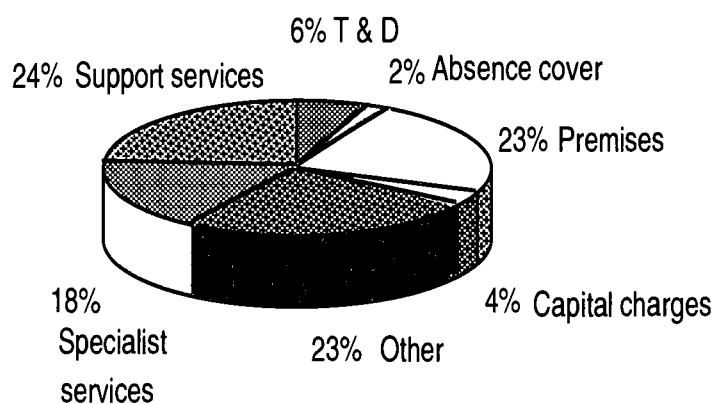
The costs per child hour incurred by centres themselves are shown below.

*Table 3: Costs per child hour incurred per centre*

	Local Authority	Private	Voluntary	All centres (average)
	£ per ch.hr.	£ per ch.hr.	£ per ch.hr.	£ per ch.hr.
Total staff costs	2.22	0.79	1.20	1.65
Tot. property costs	0.66	0.12	0.16	0.45
Total other costs	0.13	0.16	0.38	0.16
TOTAL	3.01	1.07	1.74	2.25

In addition each local authority accounts for some costs centrally and these, expressed as an annual amount per child in a local authority centre, are shown below.

*Figure 2: Allocation of local authority centrally held funds per child*



An average attendance per child of 500 hours a year has been assumed in order to derive the best available figures for full annual cost comparisons. This is based on attendance for 40 weeks per year, which fits with current operating patterns, and for 12.5 hours a week. It should be noted, however, that this is assuming a more standard pattern of attendance than has been shown to be the case.

On this basis, the current annual costs of provision per child are as shown below.

*Table 4: Current annual costs of provision per child*

	Local Authority	Private	Voluntary	All centres (average)
	£p.a. per child	£p.a. per child	£p.a. per child	£p.a. per child
Total staff costs	1128.08	397.30	598.75	836.16
Tot.property costs	389.09	58.30	81.45	259.98
Total other costs	209.10	81.50	188.00	165.08
<b>TOTAL</b>	<b>1726.27</b>	<b>537.10</b>	<b>868.20</b>	<b>1261.22</b>

Across all sectors,  
small centres have  
higher unit costs than  
larger ones.



From this it appears that centres in the private sector cost much less than those in the voluntary sector. In case this resulted from the non-disclosure of some private sector costs, the team looked at total costs compared with total income to try to identify any apparently high surpluses. However, in many cases the only income figures given were historical figures and not comparable with the cost figures used. Other possible explanations for the relativities in cost across the sectors would require further research.

The annual costs above can be further analysed to distinguish between small centres and others as shown below. However, it should be borne in mind that the addition for local authority central costs is at a uniform rate across all types of centre.

*Table 5: Annual cost per child (NB small is defined as 20 children or less)*

	£ p.a. per child
Small local authority centres	2752.31
Small private and voluntary centres	1029.96
Average, small centres	1404.43
Other local authority centres	1659.20
Other private and voluntary centres	537.70
Average, other centres	1239.77

Clearly therefore, across all sectors, small centres (defined as having 20 children or less) have higher unit costs than larger ones. A similar comparison of the costs of centres in rural, intermediate and urban local authority areas is shown below.

*Table 6: Comparison of cost centres in rural, intermediate and urban local authority centres.*

	£ p.a. per child
Rural local authority centres	2386.47
Rural private and voluntary centres	481.36
Average, rural centres	1422.31
Intermediate local authority centres	1858.83
Intermediate private and voluntary centres	694.23
Average, intermediate centres	1530.54
Urban local authority centres	1462.54
Urban private and voluntary centres	627.22
Average, urban centres	1120.05

A surprising feature is the apparently lower cost of private and voluntary centres in rural areas compared with urban and intermediate areas. This may indicate that the classification according to rural, intermediate and urban, by whole local authority area, is too broad. It may also reflect the distorting effect of the various 'free goods' referred to earlier from which the private and voluntary sectors benefit.

## Conclusion

The aim of this study was to provide 'firm and comprehensive' information on costs. Given the contextual implications (referred to in the background section) and the different levels of response (by sector) to the survey, some caution must be used in generalising from the overview of the costs per child. The relativities per sector are perhaps as important as the absolute figures in each sector. Whether these relativities are sufficiently robust to justify a differentiated approach to the Government funding of pre-school education at the present time is, however, open to question.

It was not within the scope of this study to assess the quality of different types of provision but there are clearly cost drivers, relating to quality, at work. The proportion of qualified teachers employed, which many commentators would associate with quality, is one of the main drivers. The cost variations would be reduced if there was more standardisation, particularly of staffing ratios and pay

rates; but, if reducing staffing standards in any sector were not considered acceptable, any move towards harmonisation of standards would lead to increases in costs overall.

Because a high proportion of costs are fixed, at least in the short term, the ability of providers to adjust their costs in response to any change in provision levels is limited. This is particularly the case for local authorities because of the high proportion of salaried staff. For example, if the number of weeks of pre-school educational provision in any centre was reduced from the typical 40 weeks used to calculate the figures above to, say, 33 weeks, this would represent a reduction of 17.5 per cent in the relevant time period. Local authorities' immediate scope to reduce costs would be a little less than 1 per cent and that of the private and voluntary sectors would, on average, be about 6 per cent.

As local authorities enter into more 'partnership' arrangements with private or voluntary sector providers, completely new and as yet uncoded forms of partnership-working may develop.



If local authorities enter into more partnership arrangements with private and voluntary providers there may be a need for them to incur different sorts of costs either to help establish new providers, or to develop and support those which already exist. There are already examples of local authority teaching staff visiting private and voluntary centres, but completely new and as yet uncoded forms of partnership-working may develop.

There is evidence that although there is spare capacity in some existing provision, there are also a significant number of communities and therefore children where there is no provision (as at March 1998, the time of this analysis). Establishing provision in these areas will involve start-up and development costs and, particularly where small centres are required, such provision is also likely to incur higher than average on-going costs.

### Rural areas

Although this study confirms that units costs are generally higher in small centres, it does not provide sufficient information to quantify the impact of that on each council with a large rural area, which could be expected to need a higher than usual proportion of small centres. This is partly because the study uses a broad definition of 'rural', but is mainly because in remote areas costs depend on:

- the pattern of provision, or otherwise, which exists
- the scope in each area to use existing facilities to expand or develop services
- the willingness and ability of local communities or businesses to participate.

Any further study into the costs of rural provision would need to use a more focused definition of 'rural' and, at the same time, consider settlement and provision patterns, as well as the potential for innovative ways of operating.

If, as would seem advantageous, any such study involved further investigation into the apparently lower costs in private and voluntary centres in rural areas, this would require a more detailed analysis of their accounts, including, in the case of private operators, their profit levels, something which may meet with resistance unless they were confident that the results would be useful to them as well.



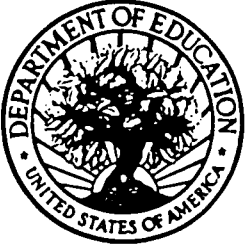
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46. Educational Provision for Children with Autism in Scotland
47. Exclusions and In-school Alternatives
48. Devolved School Management
49. Implementing 5-14 in Primary and Secondary Schools: Steady Development?
50. Early Intervention: Key Issues from Research
51. Youth Work with Vulnerable Young People
52. Evaluation of the Technical and Vocational Education Initiative (TVEI) Extension

## Further information

If you have views on *Interchange* and/or wish to find out more about ERU's research programme, contact the Educational Research Unit (ERU), The Scottish Office Education and Industry Department, Room 2B, Victoria Quay, Edinburgh EH6 6QQ

Printed for the Stationery Office J19321 6/98 53791



**U.S. DEPARTMENT OF EDUCATION**  
*Office of Educational Research and Improvement (OERI)*  
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